

CITY OF TAFT, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

PREPARED BY

**City of Taft
City Manager**

**CITY OF TAFT, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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INTRODUCTORY SECTION

City of Taft, Texas



June 15, 2013

The Honorable Mayor, City Council and City Manager
City of Taft
Taft, Texas

This report represents the Annual Financial Report for the City of Taft, Texas for the fiscal year ended September 30, 2012.

This report is published to provide the City Council, City Staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects, and is organized in a manner designed to fairly present the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The Staff is pleased to submit the Annual Financial Report for the City of Taft, Texas, for the fiscal year ended September 30, 2012.

THE REPORT

This report is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes this transmittal letter, a listing of the City Officials, and an organizational chart. The Financial Section includes a Management Discussion and Analysis (MD&A), basic financial statements and combining and individual fund statements and schedules, as well as the Independent auditors' report on the basic financial statements. This letter of transmittal is designed to complement and should be read in conjunction with the MD&A. The City of Taft's MD&A can be found immediately following the report of the independent auditors. The Statistical Section includes financial and demographic information, usually presented on a multi-year basis that is relevant to a financial statement reader.

The City of Taft's financial statements have been audited by Ernest R. Garza & Company, P.C.; a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Taft for the fiscal year ended September 30, 2012 are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for the fiscal year ended September 30, 2012 financial statements to be considered to be fairly presented in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board and other professional promulgations, as applicable.

CITY PROFILE

Location

The City of Taft is a city located in San Patricio County. Located in San Patricio County, Taft is 22 miles from Corpus Christi and about 88 miles south of San Antonio. The City encompasses approximately 4.0 square miles of land within the City's corporate boundary. Taft's population is estimated at about 3,048.

Taft was incorporated as a town in 1929. The City operates under a City Manager form of government.

Services Provided

Services provided by the City under the general governmental functions include public safety (police and fire), streets, sanitation, health and social services, culture recreation, public improvements, planning and zoning, and general administrative services. Other services include utilities operations. A private firm provides solid waste collection and disposal services under a contract with the City. In addition, water and sewer services are provided under an Enterprise Fund concept, with user charges set by the City Council to ensure adequate coverage of operating expenses, payments on outstanding debt and reserves.

Blended Component Unit

The City of Taft, Texas had no blended component units.

Discretely Presented Component Unit

The City of Taft, Texas, Economic Improvement Corporation (a nonprofit corporation) service the citizens of the City of Taft, Texas, by providing financing of economic development objectives, recreational and infrastructure improvements. Revenues are provided primarily with funds derived from a one-half of one percent sales and use tax approved by the voters in the fiscal year 1999. The Corporation is reported as a discretely component unit. The Taft Economic Development Corporation was created to be a vehicle for economic stimulus for the Taft area. In addition, the City has the Pride of Taft which is utilized for enhancing quality of life thru beautification of city wide cleanups activities. Complete financial statements of the Taft Economic Development Corporation may be obtained at the City's administrative office.

Taft Economic Development Corporation
City Hall, 501 Green Avenue, P.O. Box 416
Taft, Texas 78390

Pride of Taft
City Hall, 501 Green Avenue, P.O. Box 416
Taft, Texas 78390

Services provided by the City under the general governmental functions include public safety (police and fire).

Accounting System and Budgetary Control

The City's accounting records for governmental operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable, expenditures being recorded when the services or goods are received, and the liabilities are incurred. Accounting records for the City's utilities and other proprietary activities are maintained on the accrual basis.

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's current internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City requires that on or before the end of August, the City Manager submits to the City Council a proposed budget and budget message to the City Council for the fiscal year commencing the following October 1. The budget message is the responsibility of the City Manager. The City Council shall review the proposed budget and make any appropriate changes prior to adopting and publishing the final budget. The budget is legally enacted through passage of an ordinance on or before September 30th. The City Manager is authorized to transfer budgeted amount within departments; however, any revisions that alter the total expenditures of a fund must be approved by the City Council. The City Manager may be authorized, by ordinance and by adoption of the City Council, to expend limited amounts which are included within the budget. Expenditures over this amount require authorization by the City Council.

Budgetary control has been established at the individual fund level. Financial reports are produced showing budget and actual expenditures by line item for the current month and year-to-date and are distributed monthly to City department supervisors as well as to others upon request.

Individual line items are reviewed and analyzed for budgetary compliance. Personnel expenditures are monitored and controlled at a position level and capital expenditures are monitored and controlled item by item.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

ECONOMIC OUTLOOK AND FINANCIAL CONDITION

Taft's Position in the Region

As the location of some of the last remaining undeveloped coastline adjacent to a deep water channel, the City is actively pursuing opportunities to promote this untapped resource through cooperative efforts with various government agencies and developers.

In addition, the City of Taft is located 12 miles to the northwest of City of Corpus Christi, Texas. As such, our economic development is largely related to providing a high quality of life for the families that reside here. Because of the quality of life the City continues to see a steady population growth. The current population from the 2010 census of 3,048 reflects a drop in population of 348 from the 2000 census of 3,396.

The City also benefits from a well-educated and affluent workforce. Taft's median household effective buying income of \$32,882 compares unfavorably to \$54,591 for Texas.

The following facts reflect Taft's economic condition and outlook:

- Building activity continues to be very strong.
- Total taxable value for all residential and commercial property in the City of Taft was 88.5 million for fiscal year 2011/2012 for an 5.3 million increase and a 10.67% increase.
- Sales tax collections have increased by more than 12.33% for the most recent year.

Future Economic Outlook

The City of Taft has taken several steps in recent years and continues to move forward on several projects to improve the quality of life by capitalizing on the natural beauty of the area and preserving public access to natural areas.

Cash Management

Idle cash is invested by City officials in certificate of deposits when the interest rates available provide local government investment opportunities while protecting principal and liquidity.

It is the City's Policy that all demand deposits and time deposits are secured by pledged collateral with a market value equal to no less than 100% of the deposits less an amount insured by the FDIC. Evidence of the pledged collateral is periodically obtained at a third party financial institution. Collateral is reviewed to assure the market value of the securities pledged equals or exceeds the related bank balances. All collateral is subject to inspection and audit by the City's independent auditors.

Pension Plan

The City of Taft provides pension benefits for all of its employees except for firefighters through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing statutes of TRMS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) from TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2012	Plan Year 2011
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/ years of service)	60/5,0/25	60/5,0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	30% of CPI Repeating	30% of CPI Repeating

Contributions: Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

1. Annual Required Contribution (ARC)	40,609
2. Interest on Net Pension Obligation	0
3. Adjustment to the ARC	0
4. Annual Pension Cost (APC)	40,609
5. Contributions Made	40,609
6. Increase (Decrease) in net pension obligation	0
7. Net Pension Obligation/(Asset), beginning of year	0
8. Net Pension Obligation/(Asset), end of year	0

The City has an unfunded Actuarial Accrued Liability overall but did not have a current year variance. See notes to financial statements for additional information.

Health Insurance and Post Employment Health Care Benefits

In addition to providing pension benefit, the City provides certain health care benefits for retired employees for a maximum time period of 24 months as allowed for employees who have met the following requirements: Employees who have reached the age of 58, are eligible for the Texas Municipal Retirement System benefits, who have at least 20 years of credited service, 10 years of which must be continuous service with the City of Taft. Also, retirees will be eligible to continue major medical health and dental insurance for up to 24 months or until the age of 65 or until eligible for Medicare Insurance benefits.

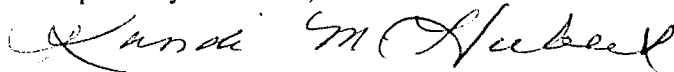
OTHER INFORMATION

Acknowledgments

Appreciation is expressed to each and every City employee who, throughout the past year, has faithfully and diligently served the City and its community. They are to be thanked.

The members of the City Council, and Citizens, are to be thanked for their active participation and support in the operations of the City. I would also like to thank the employees of the City of Taft, Texas, for their assistance in compiling the necessary financial data regarding this report.

Respectfully submitted,



City Manager

CITY OF TAFT

List of Principal Officials

ELECTED OFFICIALS

Robert "Bobby" Vega	Mayor
Roy Stegall	Mayor Pro-Tem
Denise Hitt	City Council
Martin Salcido	City Council
Leonard Vasquez	City Council

APPOINTED OFFICIALS

Kandi Hubert	City Manager
Stephanie Floyd	Finance Director
John Landreth	Chief of Police
Dan Gibson	Fire Chief
Fred Farias	Director of Public Works
Vacant	City Secretary
Tazh Fonville	Building Inspector
Carmel Herrera	Municipal Court Judge
Monte Akers	City Attorney

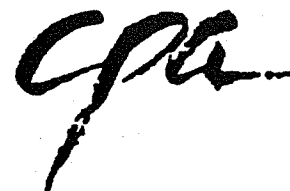
City of Taft, Texas

FINANCIAL SECTION

City of Taft, Texas

**ERNEST R. GARZA
AND COMPANY, P.C.**
Certified Public Accountants

10201 Leopard #A
Corpus Christi, Texas 78410
Bus. (361) 241-2452
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Toll Free 1-800-241-1272



6102 Ayers St. #106
Corpus Christi, Texas 78415
Bus. (361) 723-0685
Fax (361) 723-0689

UNQUALIFIED OPINION ON FINANCIAL STATEMENTS

The Honorable Mayor,
Members of City Council
City of Taft, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Taft, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Taft management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

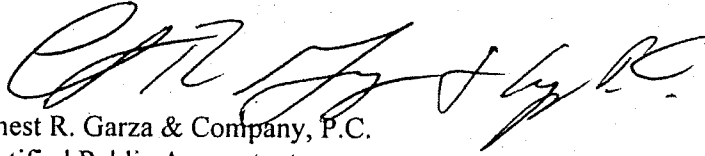
In our opinion, the financial statements referred to above presently fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Taft, Texas, as of September 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 17 through 24 and the budgetary comparison information presented as a supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the City of Taft's basic financial statements. The combining and individual non major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Ernest R. Garza", is written over the printed name.

Ernest R. Garza & Company, P.C.
Certified Public Accountants
June 15, 2013

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

This discussion and analysis of the City of Taft's financial performance is intended to provide an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2012. The reader is encouraged to consider the information presented here in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- As of September 30, 2012, the City of Taft's General Fund reported an ending deficit fund balance of \$(38,598) in the governmental fund types. (Exhibit C-3)
- As of September 30, 2012, the City of Taft's Utility Fund reported an ending total net assets of \$768,719, a decrease of \$122,557 or 13.75%. (Exhibit D-2)
- The net assets of the City of Taft exceeded its liabilities at the close of the fiscal year ending September 30, 2012 by \$6,336,191. An increase of the net assets a result of the governmental fixed assets being re-calculated and adjusted based on Engineer's information. The resulting prior period adjustment of \$438,460 was made to the fixed assets for the city's governmental infrastructure and buildings. Of \$6,336,191 total net assets, \$66,204 or 1.19% represents the fund balance of the General Fund on the full accrual basis. (Exhibit A-1, B-1)
- The City of Taft's total net assets decreased by \$918,820 for the year ended September 30, 2012, this was a result of a prior period adjustment to the fixed assets of \$438,460 as mentioned above and net loss in operations of \$1,357,280. (Exhibit B-1)
- As of September 30, 2012, the City of Taft's governmental funds reported combined ending fund balance of \$4,732,887. A prior period adjustment was made to reflect the total bonds outstanding from the Series 2010. (Exhibit C-1, C-3)
- The City's total debt decreased by \$171,004 during the year from \$7,349,674 to \$7,178,670 after a prior period adjustment to reflect the total bonds issued out for Series 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City of Taft's basic financial statements. The City of Taft's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City of Taft's finances, in a manner similar to a private-sector business.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

The Statement of Net Assets presents information on all of the City of Taft's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Taft is improving or deteriorating. This statement combines and consolidates governmental funds' current financial resources (short-term spend-able resources) with capital assets and long-term obligations. Other non financial factors should be taken into consideration, such as changes in the City's property tax base and the condition on the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc), to asses the overall health or financial condition of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxed and earned but not used vacation leave). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- Governmental Activities- Most of the City's basic services are reported here, including the police, fire, library, building and inspections, sanitation, code enforcement, parks and recreation and general administration. Property taxes, sales taxes and franchise fee finance most of these activities.
- Business type Activities- the City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system are reported here.
- Discretely Presented Component Unit – The Taft Economic Development Corporation and the Pride of Texas were created to assist in economic development and chamber enhancements.
- Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds- not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City has established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds- governmental and propriety- utilize different accounting guidelines.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

- **Governmental Funds-** the majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provided a detailed short term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

By comparing information presented for governmental activities in the government-wide statements, readers may better understand the long term effect of the government's near term operating decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statement.

The City of Taft maintains nine individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Capital Projects Fund and Debt Service Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated non major fund presentation. Individual fund data for each of these non major governmental funds is provided in the form of combining statements elsewhere in this report.

- **Proprietary Funds-** the City charges customers for the services it provides. These services are generally reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. Because these services benefit both governmental as well as business type functions, their cost has been included in both the governmental and business type activities in the government-wide financial statements.

Notes to the Financial Statements

These notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**CITY OF TAFT, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

Other Information

In addition to basic financial statement and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees and budgetary comparative information for the general fund.

The City as a Whole- Government-wide Financial Analysis

The City's combined net assets were \$6.34 million as of September 30, 2012. Analyzing the net assets and net expenses of governmental type activities were 5.57 million and business-type activities, separately the business type activities net assets are \$.77 million. The large increase was due to the adjustment of fixed assets as mentioned in the previously. The analysis focuses on the net assets (Table 1) and changes in general revenues (Table 2) and significant expenses of the City's governmental and business type-activities.

By far the largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, plant assets, machinery, equipment, and furniture), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table I
CITY OF TAFT, TEXAS
CHANGES IN NET ASSETS

	Governmental Activities		Business Type Activities	
	2012	2011	2012	2011
Current and Other Assets	5,655,983	617,074	188,109	267,865
Capital Assets	7,766,330	7,563,404	897,858	975,680
Total Assets	13,422,313	8,180,479	1,085,967	1,243,545
Current and Other Liabilities	1,108,961	406,927	317,248	352,269
Long Term Liabilities	6,745,880	1,409,817	0	0
Total Liabilities	7,854,840	1,816,744	317,248	352,269
Net Assets:				
Invested in Capital Assets Net of Related Debt	660,992	5,795,239	897,858	975,680
Restricted	4,840,346	437,753	-	-
Unrestricted	66,204	130,742	(129,139)	(84,404)
Total Net Assets	5,567,472	6,363,735	768,719	891,276

Table II
CITY OF TAFT, TEXAS
CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business Type Activities</u>	
	2012	2011	2012	2011
Revenues:				
Property Taxes	1,024,623	744,420	-	-
Sales Tax	219,219	195,154	-	-
Franchise Taxes	139,805	142,822	-	-
Other Taxes	1,050	-	-	-
Licenses and Permits	149,395	87,214	-	-
Intergovernmental	751,939	90,098	-	-
Charges for Services	176,908	162,555	1,887,887	1,855,501
Fines and Forfeitures	104,033	103,313	-	-
Investment Earnings/Other	648	2,826	-	-
Other Revenue	584,168	327,535	-	-
Total Revenue	3,151,787	1,858,488	1,887,887	1,855,501
Expenses:				
General Government	962,171	562,671	-	-
Public Safety	1,990,449	1,519,936	-	-
Public Works	1,680,312	633,254	-	-
Parks, Recreation and Culture	253,283	319,966	-	-
Water			726,777	756,265
Wastewater			216,058	287,645
Sanitation			384,238	457,012
Economic Development and Assistance			-	-
Bond payments, principal, interest	103,844	87,610	-	-
Depreciation			77,822	122,099
Total Expenses	4,990,059	3,123,437	1,406,895	1,623,021
Increase (Decrease) in net assets before transfers and special items	(1,838,272)	(1,264,949)	480,992	232,480
Transfers	603,549	467,933	(603,549)	(467,933)
Non-operating Revenues/(Expenses)	-	-	-	-
Net Increase (Decrease)	(1,234,723)	(797,016)	(122,557)	(235,454)
Prior Period Adjustment	438,460	5,982,792	-	-
Net assets at beginning	6,363,735	1,177,958	891,276	1,204,713
Net assets at ending	5,567,472	6,363,735	768,719	891,276

Government Fund Activities

The City's general fund revenues increased when compared to the prior year by 8.27 percent or \$165,814. The assessed value of the property in the City was 88.5 million, an increase compared to the prior year of 79.9 million. In addition to ad valorem property taxes, the City collects sales taxes, franchise taxes, beverage taxes and other taxes in lieu of ad valorem taxes.

Table 3
General Fund Revenues
At September 30

	<u>2012</u>	<u>2011</u>	<u>Increase</u> <u>(decrease)</u>
Taxes	905,432	769,398	136,034
Licenses and Permits	149,395	87,214	62,181
Intergovernmental	-	1,000	(1,000)
Charges for services	20,823	23,236	(2,413)
Fines and penalties	104,033	103,313	720
Other	<u>276,115</u>	<u>304,548</u>	<u>(28,434)</u>
Total General Revenues	<u>1,455,797</u>	<u>1,288,710</u>	<u>167,087</u>

The most significant governmental expense for the City was in the public safety. The public safety incurred expenditures of \$1,043,093. Police accounted for \$508,301 in public safety expenditure and the emergency services was \$430,896.

Enterprise Fund Activities

Revenues of the City's Utility Funds were \$1.89 million for the fiscal year ending September 30, 2012. Operating expenses were \$1.407 million for the year, resulting in net revenues of \$480,992 before transfers out is taken into account. The most significant expense of the Utility Fund was \$483,533 for water purchased.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2012, the City of Taft had nearly \$23.7 million invested in a broad range of capital assets, including police and fire equipment building, land, park facilities, roads, bridges, vehicles, and water and sewer lines. An increase of the net assets a result of the governmental fixed assets being re-calculated and adjusted based on Engineer's information. (Exhibit A-1, B-1) (See Table 4.).

Table 4
Capital Assets before Depreciation
At September 30

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$10,524	\$10,524	\$ -	\$ -	\$10,524	\$10,524
Buildings	2,658,616	2,650,000	32,668	32,668	2,691,284	2,682,668
Improvements	3,395,623	3,159,294	-	-	3,295,623	3,159,294
Equipment	1,608,397	1,591,860	384,601	384,601	1,992,998	1,976,461
Vehicles	534,336	511,718	-	-	534,336	511,718
Infrastructure	10,000,000	10,000,000	-	-	10,000,000	10,000,000
Construction in Progress	798,571	-	-	-	798,571	-
Water System	-	-	1,624,910	1,624,910	1,624,910	1,624,910
Sewer System	-	-	2,734,357	2,734,357	2,734,357	2,734,357
Total Capital Assets	<u>\$18,906,067</u>	<u>\$17,923,396</u>	<u>\$4,776,536</u>	<u>\$4,776,536</u>	<u>\$23,682,603</u>	<u>\$22,699,932</u>

Reclassifications of capital items resulted in the variances. Adjustments were made to better reflect the capital assets. In addition, an engineering firm has assisted in providing updated governmental fixed assets for the City and this is reflected in the information above.

Debt

At year-end, the City of Taft had \$7,096,917 in General Certifications of Obligation and Revenue Bonds, notes and capital leases as compared to \$7,251,179 at the end of the prior fiscal year after correcting the outstanding bonds Series 2010 as being reflected in 2011. Table 5 below reflects outstanding long-term debt overall decrease of 2.33 percent with the correction of the issuance of \$5,780,000 Series 2010 bonds.

Table 5
Outstanding Long-Term Debt
At September 30

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
TWDB Certificate of Obligations – 2010	\$5,780,000	\$5,780,000	\$0	\$0	\$5,780,000	\$5,780,000
General Certificates of Obligations – 2010	902,864	950,007	0	0	902,864	950,007
Note	229,053	281,172	0	0	229,053	281,172
Combination Tax/Revenue Bonds – 2004	<u>185,000</u>	<u>240,000</u>	<u>0</u>	<u>0</u>	<u>185,000</u>	<u>240,000</u>
Total Outstanding Debt	<u>\$7,096,917</u>	<u>\$7,251,179</u>	<u>\$0</u>	<u>\$0</u>	<u>\$7,096,917</u>	<u>\$7,251,179</u>

During the current fiscal year, the City of Taft paid principal of \$169,749 on the outstanding debt. The City Charter authorizes the City of Taft to issue bonds, when authorized by the voters or the City Council, for any purpose for which a city may issue bonds under the Constitution and laws of the State of Texas. The Charter precludes the use of bond proceeds for any other purpose other than that for which the bonds were sold.

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2012, the governmental funds of the City reported a combined fund balance of \$4,732,887. This ending total fund balance(s) include an increase in the fund balance of \$4,280,734 including results of overall operational loss of \$(1,476,456) and a prior period adjustment of \$5,153,641 in the City's Governmental fund types - Capital Projects Fund. The ending General Fund balance resulted in a deficit of (\$38,598) with operations resulting in a loss of \$(709,697).

Other fund balance charges are:

- The Series 2004 Debt Service fund balance increased from \$3,145 to \$3,148 while the Series 2000 Debt Service fund balance increased from \$155,594 to \$182,161, the Series 2010 resulted in a fund balance of \$5,217 and the combination tax and surplus fund ended with a fund balance of \$70,619.

General Fund Budgetary Highlights

During the fiscal year, the City is continuing to enhance its purchase order system to establish stronger controls on its budget process.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2012-2013 budget, tax rates and fees that will be charged for the business-type activities. The total growth of the City's commercial development and revenues remain on target. Property tax valuations continue to increase; thus the property tax revenues are still increasing while the tax rate decreases. Water and sewer utility rates provide adequate revenue to cover the cash expenses of the Utility fund. However, rate increases are expected to be needed in order to accumulate operating reserves, depreciation, and transfers to the General Fund. In the post audit period, the City was informed that they would be handling their own tax revenue collections which will result in additional costs for the City.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives from all sources. If you have questions about this report or need additional financial information, contact the City Manager at the City of Taft, 501 Green Avenue, Taft, Texas 78390.

BASIC FINANCIAL STATEMENTS

City of Taft, Texas

CITY OF TAFT, TEXAS
STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT A-1

	Primary Government			Component Unit Non-Major
	Governmental	Business Type	Total	Component Unit
<u>ASSETS:</u>	<u>Activities</u>	<u>Activities</u>		
Cash and Cash Equivalents	\$ 5,364,493	(64,331)	5,300,162	72,342
Investments - Current	-	-	-	77,727
Receivables (net of allowance)	291,490	237,369	528,859	8,384
Prepaid Items	-	-	-	-
Due From Other Funds	-	-	-	-
Due From Others	-	-	-	-
Inventory	-	15,071	15,071	-
Bond Issue Cost (net)	-	-	-	-
Restricted Assets:				
Temporarily Restricted:		-		
Temporarily Restricted Assets	-	-	-	-
Capital Assets:				
Land	10,524	-	10,524	-
Infrastructure and Buildings, net	6,735,413	403,863	7,139,276	-
Machinery and Equipment, net	221,822	493,995	715,817	-
Construction in Progress	798,571	-	798,571	-
TOTAL ASSETS:	\$ 13,422,313	1,085,967	14,508,280	158,453
<u>LIABILITIES:</u>				
Accounts Payable & Other Current Liab.	\$ 745,032	85,409	830,440	-
Due to Other Funds	-	-	-	-
Due to Others	-	-	-	-
Accrued Liabilities	4,401	113,656	118,057	-
Current Bonds/Loans/Lease Payable	359,528	-	359,528	-
Payable from Restricted Assets	-	118,184	118,184	-
Bonds/Loans Payable/Other - Long Term	6,745,880	-	6,745,880	-
TOTAL LIABILITIES	\$ 7,854,840	317,248	8,172,088	-
<u>NET ASSETS:</u>				
Invested in Capital Assets, Net of Debt	\$ 660,922	897,858	1,558,780	-
Restricted for Revenue Bond Retirement	-	-	-	-
Commitments	-	-	-	-
Restricted for Capital Project Funds	4,305,441	-	4,305,441	-
Restricted for Special Revenue Funds	276,908	-	276,908	-
Restricted for Debt Service Funds	257,997	-	257,997	-
Unrestricted Net Assets	66,204	(129,139)	(62,935)	158,453
TOTAL NET ASSETS	\$ 5,567,472	768,719	6,336,191	158,453

The notes to the Financial Statements are an integral part of this statement.

**CITY OF TAFT, TEXAS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

		Program Revenues	
		Charges For	Operating Grants and Contributions
	Expenses	Services	
<u>Primary Government:</u>			
GOVERNMENTAL ACTIVITIES:			
10 General Government	\$ 962,171	156,086	-
21 Public Safety	1,990,449	104,033	-
31 Public Works	1,680,312	20,823	-
50 Culture and Recreation	253,283	-	-
65 Economic Development and Assistance	-	-	-
73 Bond Interest	103,844	-	-
 TOTAL PRIMARY GOVERNMENT	 \$ <u>4,990,059</u>	 <u>280,941</u>	 <u>-</u>
 BUSINESS-TYPE ACTIVITIES:			
701 Utility Fund	\$ 1,406,895	1,887,887	-
Total Business Type Activities:	\$ <u>1,406,895</u>	<u>1,887,887</u>	<u>-</u>

General Revenues:

Taxes:

Prop. Taxes, Levied for M&O, Debt Serv., Pen., Int.

Sales Taxes

Franchise Taxes

Other Taxes

Licenses and Permits

Grants and Contributions not Restricted

Other Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Prior Period Adjustment

Net Assets - Ending

The notes to the Financial Statements are an integral part of this statement.

EXHIBIT B-1

Net (Expense) Revenues and Changes in Net Assets			
Primary Government			Component Units Non-major Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (806,086)	-	(806,086)	-
(1,886,416)	-	(1,886,416)	-
(1,659,490)	-	(1,659,490)	-
(253,283)	-	(253,283)	-
-	-	-	65,075
(103,844)	-	(103,844)	-
<u>\$ (4,709,118)</u>	<u>-</u>	<u>(4,709,118)</u>	<u>65,075</u>
-	480,992	480,992	-
-	480,992	480,992	-
-	-	-	-
-	-	-	-
\$ 1,024,623	-	1,024,623	-
219,219	-	219,219	74,419
139,805	-	139,805	-
1,050	-	1,050	-
149,395	-	149,395	-
751,939	-	751,939	-
584,168	-	584,168	-
648	-	648	511
603,549	(603,549)	-	-
<u>\$ 3,474,395</u>	<u>(603,549)</u>	<u>2,870,846</u>	<u>74,930</u>
<u>(1,234,723)</u>	<u>(122,557)</u>	<u>(1,357,280)</u>	<u>9,855</u>
6,363,735	891,276	7,255,011	148,598
438,460	-	438,460	-
<u>\$ 5,567,472</u>	<u>768,719</u>	<u>6,336,191</u>	<u>158,453</u>

**CITY OF TAFT, TEXAS
BALANCE SHEET
GOVERNMENT FUNDS
SEPTEMBER 30, 2012**

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Interst & Sinking Fund</u>	<u>Waste Grant Fund</u>
ASSETS				
Cash and Texpool Accounts	\$ 101,616	4,973,059	180,834	(46,134)
Receivables and Allowances:				
Inventory	-	-	-	-
Due From Other Governmental Agencies				
Other	-	-	-	46,134
Ad Valorem Taxes	129,734	-	80,470	-
Allowance for Uncollectible Taxes	(19,836)	-	(12,304)	-
Due From Other Funds	-	-	1,328	-
Prepaid Items	-	-	-	-
TOTAL ASSETS	<u>\$ 211,513</u>	<u>4,973,059</u>	<u>250,327</u>	<u>-</u>
LIABILITIES AND FUND BALANCE				
Accounts Payable	\$ 77,414	667,618	-	-
Other Payables	-	-	-	-
Due to Other Funds	62,799	-	-	-
Deferred Revenues	109,898	-	68,166	-
TOTAL LIABILITES	<u>\$ 250,111</u>	<u>667,618</u>	<u>68,166</u>	<u>-</u>
FUND BALANCE				
Restricted for Special Revenue	\$ -	-	-	-
Restricted for Debt Service	-	-	182,161	-
Restricted for Capital Projects	-	4,305,441	-	-
Unassigned	(38,598)	-	-	-
TOTAL FUND BALANCE	<u>\$ (38,598)</u>	<u>4,305,441</u>	<u>182,161</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 211,513</u>	<u>4,973,059</u>	<u>250,327</u>	<u>-</u>

EXHIBIT C-1

Combination Tax and Surplus Fund	Other Governmental Funds	Total Governmental Funds
70,619	84,500	5,364,493
-	-	-
-	67,292	113,426
-	-	210,204
-	-	(32,140)
-	61,472	62,799
-	-	-
<u>70,619</u>	<u>213,264</u>	<u>5,718,782</u>
-	-	745,032
-	-	-
-	0	62,799
-	-	178,064
<u>-</u>	<u>0</u>	<u>985,895</u>
-	208,047	208,047
70,619	5,217	257,997
-	-	4,305,441
-	-	(38,598)
<u>70,619</u>	<u>213,264</u>	<u>4,732,887</u>
<u>70,619</u>	<u>213,264</u>	<u>5,718,782</u>

CITY OF TAFT, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

Exhibit C-2

Total Fund Balances - Governmental Funds

\$ 4,732,887

The City uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets.

Capital assets are used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of including these balances for capital assets (net of depreciation) in the governmental activities is to increase net assets. At the beginning of the year, the costs of these assets were: \$ 17,923,396 and the accumulated depreciation was: \$ (10,359,992)

In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets -- (7,319,177) .

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the governmental-wide financial statements. The net effect of including the 2011 capital outlays and debt principal payments is to increase (decrease) net assets. 1,222,536

The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. (779,745)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and the recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets. 178,064

Net assets of Governmental Activities

\$ 5,567,472

The accompanying notes are an integral part of this statement.

City of Taft, Texas

CITY OF TAFT, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General	Capital Projects Fund	Interst & Sinking Fund	Waste Grant Fund
REVENUES				
Taxes	\$ 905,432	-	301,201	-
Licenses and Permits	149,395	-	-	-
Intergovernmental	-	-	-	328,556
Charges for Services	20,823	-	-	-
Fines and Penalties	104,033	-	-	-
Interest	-	-	214	-
Other	276,115	-	-	-
TOTAL REVENUES	\$ 1,455,797	-	301,416	328,556
EXPENDITURES				
Current				
General Administration	\$ 838,546	-	-	-
Cultural and Recreational, Tourism	150,418	-	-	-
Public Safety	1,043,093	-	-	-
Public Works	133,437	798,571	-	328,556
Debt Service				
Principal Retirement	-	-	171,004	-
Interest and Fiscal Charges	-	-	103,844	-
TOTAL EXPENDITURES	\$ 2,165,493	798,571	274,848	328,556
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (709,697)	(798,571)	26,567	-
OTHER FINANCING SOURCES (USES)				
Capital - related Debt Issued	\$ -	-	-	-
Transfers from Other Funds	656,699	-	-	-
Transfer to Other Funds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ 656,699	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	\$ (52,998)	(798,571)	26,567	-
FUND BALANCE, beginning of year	\$ 14,400	-	155,594	(49,629)
Prior Period Adjustment	-	5,104,012	-	49,629
FUND BALANCE, end of year	\$ (38,598)	4,305,441	182,161	-

EXHIBIT C-3

Combination Tax and Surplus Fund	Other Governmental Funds	Total Governmental Funds
-	-	1,206,633
-	-	149,395
401,046	423,383	1,152,985
-	-	20,823
-	-	104,033
119	315	648
-	63,092	339,208
<u>401,165</u>	<u>486,790</u>	<u>2,973,724</u>
-	3,960	842,506
-	-	150,418
-	363,708	1,406,801
391,295	123,748	1,775,607
-	-	171,004
-	-	103,844
<u>391,295</u>	<u>491,416</u>	<u>4,450,180</u>
<u>9,870</u>	<u>(4,626)</u>	<u>(1,476,456)</u>
-	-	-
-	2,500	659,199
-	(55,650)	(55,650)
-	(53,150)	603,549
9,870	(57,776)	(872,907)
60,749	271,039	452,153
-	-	5,153,641
<u>70,619</u>	<u>213,264</u>	<u>4,732,887</u>

CITY OF TAFT, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

Exhibit C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (872,907)
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The City uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income (loss) of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.	-
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Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2012 capital outlays and debt principal payments is to increase (decrease) net assets.	239,865
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Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(779,745)
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Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds from bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions as to increase (decrease) net assets.	178,064
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Change in Net Assets of Governmental Activities	\$ <u>(1,234,723)</u>
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The accompanying notes are an integral part of this statement.

**CITY OF TAFT, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2012 WITH COMPARATIVE ACTUAL AMOUNTS FOR 2011**

**Exhibit C-5
2011**

	2012			Variance with	
	BUDGETED AMOUNTS			Final	
	Original	Final	Actual	Budget	Actual
				Variance	
REVENUES					
Taxes					
Property Taxes	619,408	619,408	544,890	(74,518)	428,739
General Sales and Use Taxes	200,000	200,000	219,219	19,219	195,154
Franchise Tax	152,285	152,285	139,805	(12,480)	142,822
Other Taxes	900	900	1,518	618	2,682
License and Permits	209,400	209,400	149,395	(60,005)	87,214
Intergovernmental Revenues	-	-	-	-	1,000
Charges for Services	23,885	23,885	20,823	(3,062)	23,236
Investment Earnings	2,000	2,000	266	(1,734)	527
Fines and Forfeitures	180,000	180,000	104,033	(75,967)	103,313
Other Revenues	582,870	582,870	275,850	(307,020)	304,021
Total Revenues	1,970,748	1,970,748	1,455,797	(514,952)	1,288,710
EXPENDITURES					
General Administration	474,288	474,288	554,043	(79,755)	21,916
Municipal Court	72,952	72,952	65,470	7,482	85,483
Administration	155,157	155,157	165,724	(10,567)	194,002
Legislative	89,844	89,844	43,713	46,131	130,577
Tax Collection	11,050	11,050	9,596	1,454	4,398
Public Safety					
Police	523,970	523,970	508,301	15,669	537,326
Fire	327,500	327,500	34,519	292,981	20,735
Emerg. Med. Service	427,981	427,981	430,896	(2,915)	421,143
Animal Control	7,700	7,700	64	7,636	27,345
Code Enforcement	69,860	69,860	69,314	546	25,120
Public Works					
Streets Department	217,229	217,229	133,437	83,792	168,772
Culture and Recreation					
Library	52,837	52,837	52,020	817	61,699
Parks/Community Center	116,545	116,545	85,979	30,566	131,256
Museum	4,000	4,000	-	4,000	5,727
Community Centers	16,757	16,757	12,419	4,338	19,245
Total Expenditures	2,567,670	2,567,670	2,165,493	402,177	1,854,746
Excess (Deficiency) of Revenues Over (Under)					
Expenditures	(596,922)	(596,922)	(709,697)	(112,775)	(566,036)
OTHER FINANCING SOURCES (USES):					
Capital related Debt Issued	-	-	-	-	-
Transfers In	596,549	596,549	656,699	60,150	603,595
Transfers (Out)	-	-	-	-	-
Total Other Financing Sources (Uses)	596,549	596,549	656,699	60,150	603,595
Net Change in Fund Balance	(373)	(373)	(52,998)	(52,625)	37,559
Fund Balance - October 1 (Beginning)	14,400	14,400	14,400	-	(14,380)
Prior period adjustment	-	-	-	-	(8,779)
Fund Balance - September 30 (Ending)	14,027	14,027	(38,598)	(52,625)	14,400

The accompanying notes are an integral part of this statement.

City of Taft, Texas

CITY OF TAFT, TEXAS

EXHIBIT C-6

DEBT SERVICE FUND - SERIES 2000 REFUNDING

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-

BUDGET (GAAP BASIS) AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2012

WITH COMPARATIVE TOTALS FOR 2011

	2012			2011	
	<u>BUDGETED AMOUNTS</u>			<u>Final</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
				<u>Variance</u>	
REVENUES					
Ad valorem Taxes	239,717	239,717	243,566	3,849	179,197
Ad valorem- Penalty & Interest	0	0	57,635	57,635	15,608
Total Ad valorem Taxes	239,717	239,717	301,201	61,484	194,805
Other Revenue	0	0	0	0	0
Interest	0	0	214	214	291
Total Revenues	<u>239,717</u>	<u>239,717</u>	<u>301,416</u>	<u>61,699</u>	<u>195,096</u>
EXPENDITURES					
Debt Service					
Principal Retirement	167,603	167,603	171,004	(3,401)	104,993
Interest and Fiscal Charges	72,114	72,114	103,844	(31,730)	87,610
Total Expenditures	<u>239,717</u>	<u>239,717</u>	<u>274,848</u>	<u>(35,131)</u>	<u>192,603</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>0</u>	<u>0</u>	<u>26,567</u>	<u>26,567</u>	<u>2,493</u>
OTHER FINANCING SOURCES (USES)					
Other Sources- Transfers (Out)	0	0	0	0	15,436
Other Sources- Transfers In	0	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>15,436</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>0</u>	<u>0</u>	<u>26,567</u>	<u>26,567</u>	<u>17,929</u>
FUND BALANCE, beginning of year	<u>155,594</u>	<u>155,594</u>	<u>155,594</u>	<u>0</u>	<u>137,665</u>
FUND BALANCE, end of year	<u>155,594</u>	<u>155,594</u>	<u>182,161</u>	<u>26,567</u>	<u>155,594</u>

DEBT SERVICE FUND - COMBINATION TAX & SURPLUS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-

BUDGET (GAAP BASIS) AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2012

WITH COMPARATIVE TOTALS FOR 2011

	2012				2011
	<u>BUDGETED AMOUNTS</u>			<u>Final Budget</u>	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>	<u>Actual</u>
REVENUES					
Ad valorem Taxes	0	0	0	0	0
Ad valorem- Penalty & Interest	0	0	0	0	0
Total Ad valorem Taxes	0	0	0	0	0
Other Revenue	0	0	401,046	401,046	0
Interest	0	0	119	119	126
Total Revenues	0	0	401,165	401,165	126
EXPENDITURES					
Debt Service					
Principal Retirement	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0
Other Services and Charges	0	0	391,295	(391,295)	113,996
Capital Outlay	0	0	0	0	0
Total Expenditures	0	0	391,295	(391,295)	113,996
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	0	0	9,870	9,870	(113,870)
OTHER FINANCING SOURCES (USES)					
Other Financing - Bonds	0	0	0	0	112,892
Other Sources- Transfers (Out)	0	0	0	0	0
Other Sources- Transfers In	0	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0	112,892
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	0	0	9,870	9,870	(978)
FUND BALANCE, beginning of year	60,749	60,749	60,749	0	61,727
FUND BALANCE, end of year	60,749	60,749	70,619	9,870	60,749

City of Taft, Texas

**CITY OF TAFT, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012**

EXHIBIT D-1

	Business-Type Activities Enterprise Fund <u>Utility Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	(64,331)
Receivables and Allowances	
Accounts	
Water and Wastewater Billings	251,913
Assessments	-
Other	-
Allowance for Uncollectible Accounts	(14,543)
Due from Other Funds	-
Bond Issue Cost (Net)	-
Prepaid Items	-
Inventory	15,071
Total Current Assets	<u>188,109</u>
Non-Current Assets:	
Restricted Assets:	
Cash and Cash Equivalents	
Revenue Bond Constuction	-
Total - Non-Current Assets	<u>-</u>
Capital Assets	
Land	-
Construction in Progress	-
Buildings	32,668
Water System	1,564,062
Sewer System	2,685,810
Vehicles	-
Furniture and Equipment	493,995
Total Capital Assets	4,776,536
Less Accumulated Depreciation	(3,878,678)
Net Capital Assets	<u>897,858</u>
TOTAL ASSETS	<u>1,085,967</u>

**CITY OF TAFT, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012**

EXHIBIT D-1
continued

	Business-Type Activities Enterprise Fund Utility Fund
LIABILITIES	
Current Liabilities	
Accounts Payable	85,409
Accrued Liabilities	99,450
Compensated Absences	14,206
Due to Other Funds	-
Capital Leases Payable	-
Current Portion of Revenue Bonds Payable	-
Customer Meter Deposits	118,184
Total Current Liabilities	317,248
Liabilities (Payable from Restricted Assets):	
Long-Term Liabilities	
Revenue Bonds Payable	-
Total Long-Term Liabilities	-
Total Liabilities	317,248
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	897,858
Restricted for:	
Revenue Bond Retirement	-
Unrestricted	(129,139)
Net Assets	768,719

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF TAFT, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2012**

EXHBIT D-2

	Business-Type Activities Enterprise Fund Utility Fund
OPERATING REVENUES	
Water Sales	875,336
Sewer Sales	494,447
Sanitation Fees	465,269
Other Fees and Charges	52,834
Total Operating Revenues	1,887,887
OPERATING EXPENSES	
Personnel Costs	416,876
Contracted Services	312,728
Supplies	41,116
Maintenance	18,700
Self Insurance Claims & Administration	-
Other Operating Expenses	56,120
Subtotal	845,540
Water Purchased	483,533
Depreciation	77,822
Amortization	-
Total Operating Expenses	1,406,895
Net Operating Income	480,992
NON-OPERATING REVENUES (EXPENSES)	
Refunding Bonds Issued	-
Payments to Escrow Agents	-
Grant Income	-
Interest Income	-
Interest and Fiscal Charges	-
Net Non-Operating Revenues (Expenses)	-
Income Before Transfers	480,992
Transfers in	-
Transfers (out)	(603,549)
Change in Net Assets	(122,557)
Prior Period Adjustment	-
NET ASSETS BEGINNING OF YEAR	891,276
NET ASSETS END OF YEAR	768,719

**CITY OF TAFT, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2012**

EXHIBIT D-3

	Business-Type Activities Enterprise Fund Utility Fund
Cash flow from operating activities:	
Cash received from customers	1,882,883
Cash received from other funds for services	-
Cash payments to suppliers for goods and services	(932,752)
Cash payments to employees for services	(431,341)
Other adjustments	-
Net cash provided by operating activities	518,790
Cash flows from noncapital financing activities:	
Transfers to other funds	(603,549)
Cash Flows from Capital and Related Financing Activities:	
Net Refunds bonds/costs	-
Grant Proceeds	-
Principal Payment on bonds	-
Interest and Fiscal Charges Paid	-
Purchase of Capital Assets	0
Prior period adjustment	-
Net Cash Used for Capital and Related Financing Activities	0
Cash Flows from Investing Activities- Interest Income	-
Net Increase (Decrease) in Cash and Cash Equivalents	(84,758)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,428
CASH AND CASH EQUIVALENTS AT END OF YEAR	(64,330)
Reconciliation of Operating Income to Net Cash	
Operating Activities	
Operating Income	480,992
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation	77,822
Amortization	-
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable (Net)	(15,568)
(Increase) Decrease in Due from Other Funds	-
(Increase) Decrease in Due from Other Governments	-
(Increase) Decrease in Prepaid Items	-
(Increase) Decrease in Inventory	10,564
Increase (Decrease) in Accounts Payable	23,130
Increase (Decrease) in Accrued Liabilities	(48,779)
Increase (Decrease) in Due to Other Funds	-
Increase (Decrease) in Capital Leases Payable	-
Increase (Decrease) in Compensated Absences	(14,465)
Increase (Decrease) in Customer Deposits	5,095
Net Cash Provided by Operating Activities	518,790

City of Taft, Texas

NOTES TO FINANCIAL STATEMENTS

**CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

I SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Taft, Texas, (the "City") was incorporated in 1890 under the provisions of the laws for the State of Texas. The City operates under a charter under a Home-Rule Charter, which was adopted on October 5, 1951, and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administration services. Other services include utilities and airport operations. The City operates with a Council-Manager type of government where the Mayor and four Council members are elected on a rotating schedule on a ward basis with 2 members for Ward 1 and 2 members for Ward 2. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered financially accountable. Blended component units, although legally separate entities are, in substance, part of the City operations and so data from these units are combined with data from the City. If applicable, discretely presented units are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City.

Blended Component Unit

The City did not have any blended component units.

Discretely Presented Component Unit

The City of Taft, Texas, Economic Improvement Corporation (a nonprofit corporation) services the citizens of the City of Taft, Texas, by providing financing of economic development objectives and infrastructure improvements. Revenues are provided primarily with funds derived from a one-half of one percent sales and use tax approved by the voters.

The Pride of Taft is another nonprofit group which provides marketing efforts for various commerce efforts for the city.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The City complies with Generally Accepted Accounting Principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Enterprise funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

B. Government-wide and fund financial statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City. The effect of inter-fund activity, within the governmental and business-type activities columns, has been removed from these statements. However, any inter-fund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balances of current financial resources. The City has presented the following major governmental funds:

**CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

General Fund-

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary funds:

Utility Fund-

The Utility Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenue as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt services expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received, as they are deemed immaterial.

D. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is not utilized by the City's accounting system. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditure or liabilities until the commitments are honored by inclusion in the subsequent year's budget. There are no significant encumbrances outstanding at September 30, 2012.

E. Cash and Investments

The City can legally invest in certificates of deposit, obligations of the U.S. Government and its Agencies or instrumentalities, State obligations, local government investment pools and certain money market funds.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The City has implemented GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." As a governmental entity other than an external investment pool, in accordance with GASB 31 the City's investments are stated at market value, except for money market investments with remaining maturity of one year or less when purchased and nonparticipating interest earning investment contracts.

For purposes of the statement of cash flows, the enterprise and internal service funds consider cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased to be cash and cash equivalents.

F. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recorded to signify that a portion of fund balance is not available for other subsequent expenditures.

G. Inventories

Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

H. Inter-fund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

I. Transactions Between Funds

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on capital assets. Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	10-50 Years
Water and Sewer System	5-50 Years
Infrastructure	10-50 Years
Machinery and Equipment	3-10 Years
Improvements	10-50 Years
Vehicles	3-10 Years

K. Compensated Absences

In proprietary fund types, accumulated unpaid compensated absences are accrued when incurred. The accruals are reported as liabilities and expenses for the year incurred. The liability in the governmental fund types is recorded only in the Government-wide Financial Statements. The amount expected to be paid from current resources is not considered to be significant. The City allows employees to accumulate an unlimited amount of vacation and sick leave. Applicable liabilities in the governmental wide net assets and in the proprietary fund have been established to reflect these liabilities.

L. Net Assets and Fund Equity

In the government-wide financial statements and proprietary funds financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments). All other net assets are considered unrestricted.

**CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

M. Use of Estimates

The preparation of basic financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the amount reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

II Reconciliation of Government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Assets</u>
Land	10,524	0	10,524	
Buildings	2,650,000	(1,378,000)	1,272,000	
Improvements	3,159,294	(1,721,741)	1,437,553	
Furniture & Equipment	1,591,860	(1,308,002)	283,858	
Vehicles	511,718	(452,249)	59,469	
Infrastructure	<u>10,000,000</u>	<u>(5,500,000)</u>	<u>4,500,000</u>	
Change in Net Assets	17,923,396	(10,359,992)		<u>7,563,404</u>
 <u>Long-term Liabilities</u> <u>at the Beginning of the year</u>				
Bonds and Loans Payable				(7,251,179)
Comp. Absences & Other				(67,998)
Capital Leases				(17,298)
Deferred amounts				<u>(13,199)</u>
Total Long-term Liabilities				<u>(7,349,674)</u>
Net Adjustment to Net Assets				<u>213,730</u>

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Land			
Buildings & Improvements	144,945	144,945	144,945
Furniture & Equipment	39,155	39,155	39,155
Infrastructure			
Construction in Progress	<u>798,571</u>	<u>798,571</u>	<u>798,571</u>
Total Capital Outlay	<u>982,671</u>	<u>982,671</u>	<u>982,671</u>
<u>Debt Principal Payments</u>			
Bond Principal – net	(158,663)	(158,663)	(158,663)
Loan Principal			
Capital Lease Payments	(11,086)	(11,086)	(11,086)
Other			
Total Principal Payments	<u>(171,004)</u>	<u>(171,004)</u>	<u>(171,004)</u>
Total Adjustment to Net Assets		<u>811,667</u>	<u>811,667</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	178,064	178,064	178,064
Uncollected taxes(assumed collectible) from Current Year Levy			
Uncollected Taxes (assumed collectible) from Prior Year Levy			
Other			
Total		<u>178,064</u>	<u>178,064</u>

**CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

III Stewardship, Compliance and Accountability

1 CASH AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The Public Funds Investment Act (Texas Government Code Charter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. Agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial Compliance with the requirements of the Act and with local policies.

A. Cash Deposits

At September 30, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,300,162 and the bank balance was \$5,104,012. The City's cash deposits at September 30, 2012 and during the period ended September 30, 2012, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

B. Investments

As of September 30, 2012, the City had the following investments and maturities:

Investment Maturities (In Years)				
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 2</u>	<u>2 to 3</u>
Investment Pools:				
Investments -Cert. of Deps.	<u>10,082</u>	<u>10,082</u>	<u>-</u>	<u>-</u>
Total Fair Value	<u>10,082</u>	<u>10,082</u>	<u>-</u>	<u>-</u>

**CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Interest Rate Risk- In accordance with state law and City policy, the City does not purchase any investments with maturities greater than 10 years.

Credit Risk- In accordance with state law and the City's investment policy, investments in mutual funds and investment pools must be rated at least AAA, commercial paper must be rated at least A-1 or P-1, and investments in obligations from other states, municipalities, countries, etc. must be rated at least A. The City's investments in investment pools were rated AAA.

Concentration of Credit Risk- the City does not place a limit on the amount the City may invest in any one issuer. The City does not have a concentration of credit risk.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a custodial credit risk.

2. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2012, was as follows:

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Balance October 1st	Additions/ Completion	Retirements/ Adjustments	Balance 30-Sep
Governmental Activities:				
Capital assets, not being depreciated				
Land	10,524	-	-	10,524
Construction in Progress	-	798,571	-	798,571
Total capital assets, not being depreciated	10,524	798,571	-	809,095
Capital assets, being depreciated				
Building	2,650,000	8,616	-	2,658,616
Improvements	3,159,294	136,329	-	3,295,623
Equipment	1,591,860	16,537	-	1,608,397
Vehicles	511,718	22,618	-	534,336
Infrastructure	10,000,000	-	-	10,000,000
Total capital assets, being depreciated	17,912,872	184,100	-	18,096,972
Less accumulated depreciation for:				
Buildings	(1,378,000)	(53,173)	-	(1,431,173)
Improvements	(1,721,741)	(65,912)	-	(1,787,653)
Equipment	(1,308,002)	(107,226)	-	(1,415,228)
Vehicles	(452,249)	(53,434)	-	(505,683)
Infrastructure	(5,500,000)	(500,000)	-	(6,000,000)
Total accumulated Depreciation	(10,359,992)	(779,745)	-	(11,139,737)
Total capital assets, being depreciated, net	7,552,880	(595,645)	-	6,957,235
Governmental activities capital assets, net	7,563,404	202,926	-	7,766,330
Business-type Activities:				
Capital assets, not being depreciated				
Land	-	-	-	-
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	-	-	-	-
Capital assets, being depreciated				
Buildings	32,668	-	-	32,668
Improvements	-	-	-	-
Equipment	384,601	-	-	384,601
Water System	1,624,910	-	-	1,624,910
Sewer System	2,734,357	-	-	2,734,357
Total capital assets, being depreciated	4,776,536	-	-	4,776,536
Less accumulated depreciation for:				
Buildings	(32,243)	(820)	-	(33,063)
Improvements	-	-	-	-
Equipment	(345,198)	(8,231)	-	(353,429)
Water System	(1,383,376)	(12,628)	-	(1,396,004)
Sewer System	(2,040,039)	(56,143)	-	(2,096,182)
Total accumulated depreciation	(3,800,856)	(77,821)	-	(3,878,677)
Total capital assets, being depreciated, net	975,680	(77,821)	-	897,859
Business-type activities capital assets, net	\$975,680	(77,821)	-	897,859

**CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:	
General government and administration	135,153
Public Works - Street Department	348,119
Parks and Recreation	102,865
Public Safety - Police Department	72,323
Public Safety - Fire Department	<u>121,285</u>
Total depreciation expense- Governmental activities	<u>779,745</u>
Business-type activities:	
Water System	12,628
Sewer System	56,143
Machinery and Equipment/Buildings	<u>8,231</u>
Total depreciation expense- Business-type activities	<u>77,821</u>

3. LONG-TERM DEBT

At September 30, 2012, bonds payable consisted of the following individual issues:

	<u>Governmental</u>
(1) Certificate of Obligations, Series 2010. In the original sum of \$1,000,000 with 5.4 % interest rates.	\$902,864
(2) Combination Tax and Revenue Bonds, Series 2004. in the original sum of \$500,000. With the interest rate of 2.80 to 4.75%	185,000
(3) Texas Water Development Board Certificate of Obligations, Series 2010 in the original sum of \$5,780,000.	5,780,000
(4) Notes for equipment/ambulance	<u>244,063</u>
Total Certificate of Obligations/Revenue Bonds	<u>\$7,111,927</u>

The above Texas Water Development Board COO, Series 2010 were restated to reflect the whole obligation and the cash established in an escrow account.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended September 30, 2012:

	BALANCE			BALANCE	DUE WITHIN ONE YEAR
	1-Oct	ADDITIONS	REDUCTIONS	30-Sep	
GOVERNMENTAL ACTIVITIES					
TWDB Certificate of Obligation Bonds, 2010	5,780,000	-	-	5,780,000	193,000
Certificate of Obligation Bonds, 2010	950,007	-	47,143	902,864	47,143
Combination Tax and Revenue Bonds, Series 2004	240,000	-	55,000	185,000	60,000
Deferred Costs	13,199	-	4,401	8,798	4,401
Compensated Absences	67,998	-	1,255	66,743	16,686
Notes payable	281,172	-	52,119	244,063	52,903
Capital Lease payable	17,298	-	11,086	6,212	6,212
Total Governmental Activities	<u>7,281,676</u>	<u>-</u>	<u>171,004</u>	<u>7,111,927</u>	<u>363,929</u>
BUSINESS-TYPE ACTIVITIES					
Revenue Bonds	-	-	-	-	-
Capital Leases	-	-	-	-	-
Compensated Absences	28,671	-	14,465	14,206	14,206
Total Business-Type Activities	<u>28,671</u>	<u>-</u>	<u>14,465</u>	<u>14,206</u>	<u>14,206</u>
Total Government	<u>7,310,347</u>	<u>-</u>	<u>185,210</u>	<u>7,126,133</u>	<u>378,135</u>

The annual requirements for bonds for years subsequent to September 30, 2012, are as follows:

YEAR ENDING	GOVERNMENTAL ACTIVITIES GENERAL/ CERTIFICATE OBLIGATIONS/NOTES PAYABLE			BUSINESS-TYPE ACTIVITIES REVENUE BONDS		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
30-Sep						
2013	361,804	67,088	428,892	-	-	-
2014	361,081	58,485	419,566	-	-	-
2015	371,864	49,686	421,550	-	-	-
2016	312,958	41,969	354,927			
2017	254,323	35,465	289,788			
Thereafter	<u>5,441,099</u>	<u>144,545</u>	<u>5,585,644</u>	<u>:</u>	<u>:</u>	<u>:</u>
TOTAL	<u>7,103,129</u>	<u>397,238</u>	<u>7,500,367</u>	<u>:</u>	<u>:</u>	<u>:</u>

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The annual requirements for capital leases for years subsequent to September 30, 2012, are as follows:

YEAR ENDING 30-Sep	GOVERNMENTAL ACTIVITIES CAPITAL LEASES PAYABLE			BUSINESS-TYPE ACTIVITIES CAPITAL LEASES PAYABLE		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2013	6,212	311	6,523	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
Thereafter	=	=	=	=	=	=
TOTAL	<u>6,212</u>	<u>311</u>	<u>6,523</u>	=	=	=

RESTRICTED CASH AND INVESTMENTS- UTILITY FUND

Revenue Bonds-

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on the pledge of the net revenues of the water and sewer system.

The Revenue Bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the Revenue Bond funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional Revenue Bonds unless the special funds noted above contain the required amounts. Management of the City believes that it is in the compliance with all significant financial requirements as of September 30, 2012.

Authorized but Not Issued Debt-

None

COMMITMENTS UNDER NON-CAPITALIZED LEASES

Operating Leases:

The City leases equipment. Most of the leases are cancelable.

Minimum lease commitments for the next five years are immaterial.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

4. INTERFUND TRANSACTIONS AND BALANCES

Inter-fund balances at September 30, 2012 consisted of the following individual fund balances:

	<u>Due From</u> <u>Other Funds</u>	<u>Due To</u> <u>Other Funds</u>
General Fund:		
Special Revenue Fund	-	61,394
Debt Service Fund	-	-
Capital Projects Fund	-	-
Enterprise Funds	-	<u>1,405</u>
Total General Fund	-	62,799
Special Revenue Fund:		
General Fund	61,398	-
Special Revenue Funds	1,401	-
Enterprise Funds	-	-
Debt Service:		
General Fund	-	-
Enterprise Funds	-	-
Enterprise Funds:		
General Fund	-	-
Special Revenue Funds	-	-
Enterprise Funds	-	-
TOTAL	<u>62,799</u>	<u>62,799</u>

The inter-fund balances at September 30, 2012 are generally short-term loans to cover temporary cash flows and reimbursements for various funds.

Inter-fund transfers during the year ended September 30, 2012 were as follows:

Transfer In	<u>General</u> <u>Fund</u>	<u>Debt Service</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Funds</u>	<u>Utility</u> <u>Fund</u>	<u>Total</u>
Utility Fund	656,699	-	-	-	656,699
General Fund	-	-	-	-	-
Debt Service Fund	-	-	-	-	-
Spec. Rev. Fund	-	-	2,500	-	2,500
Total	<u>656,699</u>	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>659,199</u>
Less Transfers	-	(-)	(55,650)	(603,549)	(659,199)
Net Transfers	<u>656,699</u>	<u>-</u>	<u>(53,150)</u>	<u>(603,549)</u>	<u>-0-</u>

The Utility Fund transfers to the General Fund were for an allocated amount for administrative service charges

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

5. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2012, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	109,898	-	-	-	109,898
Major Gov. Funds	68,166	46,134	1,328	-	115,628
Non-major Gov. Funds	-	67,292	61,472	-	128,764
Total - Governmental Activities	<u>178,064</u>	<u>113,426</u>	<u>62,799</u>	<u>=</u>	<u>354,289</u>

Payables at September 30, 2012, were as follows:

	<u>Accounts</u>	<u>Loans, Leases and Bonds Payable – Current Year</u>	<u>Salaries and Benefits</u>	<u>Due To Other Funds</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:							
General Fund	77,414	359,528	4,401	62,799	-	-	504,143
Major Gov. Fund	667,618	-	-	-	-	-	667,618
Non-major Gov. Funds	-	-	-	-	-	-	-
Total- Gov. Activities	<u>745,032</u>	<u>359,528</u>	<u>4,401</u>	<u>62,799</u>	<u>=</u>	<u>=</u>	<u>1,171,760</u>

6. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Property taxes are levied on October 1 based on 100% of appraise value of property as listed on the previous January 1. Appraised values are determined by the San Patricio County Appraisal District; approved by the San Patricio County Appraisal Review Board; and certified by the Chief Appraiser. Property taxes are due upon receipt of the tax bill and are delinquent if not paid before February of the year following the year in which imposed. The city does not offer a discount or early payment of taxes. The City's taxes are billed and collected by the City during the current fiscal year and will be billed and collected by the San Patricio County Tax Assessor Collector in future years. Ad valorem taxes of \$732,130 were assessed on property values totaling \$88,480,480 using a tax rate of \$.827448 (\$.510685 for general operations and \$.316763 for debt service) per \$100 assessed value.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

7. PENSION PLAN

Plan Description: The City of Taft provides pension benefits for all of its eligible employees (except firefighters and part – time personnel) through a non – traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple – employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The provisions are adopted by the governing body of the City of Taft, within the options available in the state statutes governing TMRS. Plan provision for the City were as follows:

	Plan Year 2012	Plan Year 2011
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/ years of service)	60/5,0/25	60/5,0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	30% of CPI Repeating	30% of CPI Repeating

Contributions: Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation (asset) are as follows:

1. Annual Required Contribution (ARC)	40,609
2. Interest on Net Pension Obligation	0
3. Adjustment to the ARC	0
4. Annual Pension Cost (APC)	40,609
5. Contributions Made	40,609
6. Increase (Decrease) in net pension obligation	0
7. Net Pension Obligation/(Asset), beginning of year	0
8. Net Pension Obligation/(Asset), end of year	0

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Three year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contributions Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2009	39,744	39,744	100%	0
2010	47,137	47,137	100%	0
2011	60,673	60,673	100%	0
2012	40,609	40,609	100%	0

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 2011, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	22.1 years – closed period	13.9 years – closed period	25.5 years – closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions			
Investment Rate of Return	7.5%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	.9%	.9%	.9%

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as of Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2006	731,415	1,039,320	70.4%	307,905	867,133	46.2%
12/31/2007	717,887	895,888	80.1%	177,801	743,292	23.9%
12/31/2008	775,987	955,656	81.2%	179,669	651,890	27.6%
12/31/2009	828,161	943,744	87.8%	115,583	845,456	13.7%
12/31/2010	1,517,198	1,516,016	100.1%	(1,182)	1,046,640	(0.1)%
12/31/2011	1,643,802	1,627,239	101.0%	(16,563)	1,191,380	(1.4)%

**CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

The city also participates in the cost sharing multi-employer defined benefit group-term life insurance coverage plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Regarding supplemental Death Benefits in compliance with GASB Statement 45, the City does offer supplemental death benefits to active or retirees for the 2012 or 2011 plan years.

City supplemental death to:	Plan Year 2012	Plan Year 2011
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

Contributions

The city contributes to the Supplemental Death Benefits Fund at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the Supplemental Death Benefits Fund program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

Health Insurance and Post Employment Health Care Benefits

In addition to providing pension benefit, the City provides certain health care benefits for retired employees for a maximum time period of 24 months as allowed for employees who have met the following requirements: Employees who have reached the age of 58, are eligible for the Texas Municipal Retirement System benefits, who have at least 20 years of credited service, 10 years of which must be continuous service with the City of Taft. Also, retirees will be eligible to continue major medical health and dental insurance for up to 24 months or until the age of 65 or until eligible for Medicare Insurance benefits.

8. COMMITMENTS AND CONTINGENT LIABILITIES/SUBSEQUENT EVENTS

There are claims and/or lawsuits pending against the City that were required to be disclosed. The City has not accrued any potential liability pending its lawsuits. No liability has been established for any pending and outstanding suites. The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives.

**CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

9. PRIOR PERIOD ADJUSTMENTS

During the year ended September 30, 2012, prior period adjustments were noted in the following fund(s):

<u>Fund</u>	<u>Amount</u>
Capital Projects Fund	\$5,104,012
Utility Fund	<u>49,629</u>
Total	<u>\$5,153,641</u>

Adjustments were also made to the governmental capital projects to reflect funds held in escrow at Wells Fargo for the Bond Series 2010.

10. NET ASSETS DEFICIT

At September 30, 2012, the General Fund maintains a deficit fund balance as well as the Utility unrestricted net assets and several special revenue funds.

11. GOING CONCERN ISSUE/SUBSEQUENT EVENTS

The City is currently in a deficit in the General Fund and has overspent in its overall budget line items. Significant corrections must be done in order for the City to return its fund balance to at least three months of annual operations. The City is working toward that goal and working on improvements. The Council has evaluated subsequent events through June 15, 2013, the date which the financial statements were available to be issued.

12. FUND BALANCES – GASB 54

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The classifications are as follows:

Non-spendable - The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of inter-fund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

CITY OF TAFT, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the City of Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or state statute. Board of Trustees or a District official delegated that authority by the City Council.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

City Fund Balance Policy

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. The City has in the past and plans to continue in the future its conservative approach to monitoring expenditures to ensure that fund balances stay strong at the 25% general fund policy level. The General Fund will need to re-build with future revenues.

By a majority vote in a scheduled meeting of the City Council, the Council may commit fund balances and it may modify or rescind these commitments. The Council may also delegate authority to persons or parties to assign fund balances in specific circumstances or funds.

Restricted	
Retirement of Long Term Debt	\$ 257,997
Special Revenue	208,047
Capital Projects	4,305,441
Assigned Fund Balances	
Undesignated/Unassigned	(38,598)
Total Fund Balances	<u>\$4,732,887</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TAFT, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2012

BUDGETARY DATA

Annual budgets are legally adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects fund, and the Asset Seizures and Forfeitures Fund, which are Special Revenue Funds. City Manager is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures of a department must be approved by the City Council. Budgeted amounts reported in the 2008-2009 financial statements present the original and final amended budget approved by the Council. All unencumbered budget appropriations except project budgets, lapse at the end of each fiscal year. The following procedures are used by the City in establishing the budgetary date reflected in the financial statements:

1. Prior to August 6th each year, the City Manager is required to submit a proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them.
2. Advertised public hearings are conducted.
3. The budget is required to be approved by September 20th.
4. The tax rates are approved after the budget has been approved.
5. The budget may be amended as considered necessary. The budget and tax rates are enacted through the passage of ordinances.

CITY OF TAFT, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
ANALYSIS OF FUNDING PROGRESS

LAST FOUR VALUATION DATES

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as of Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2007	717,887	895,888	80.1%	177,801	743,292	23.9%
12/31/2008	775,987	955,656	81.2%	179,669	651,890	27.6%
12/31/2009	828,161	943,744	87.8%	115,583	845,456	13.7%
12/31/2010	1,517,198	1,516,016	100.1%	(1,182)	1,046,640	(0.1)%
12/31/2011	1,643,802	1,627,239	101.0%	(16,563)	1,191,380	(1.4)%

City of Taft, Texas

COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES AS SUPPLEMENTARY INFORMATION

City of Taft, Texas

GOVERNMENTAL FUNDS

City of Taft, Texas

GENERAL FUND

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The general operating expenditures, fixed charges, and capital improvement costs that are not paid through other funds are paid from the General Fund. The Fund uses the modified accrual basis of accounting.

City of Taft, Texas

**CITY OF TAFT, TEXAS
GENERAL FUND
COMPARATIVE BALANCE SHEETS
SEPTEMBER 30, 2012 AND 2011**

EXHIBIT H-1

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and Texpool Accounts	101,616	98,189
Receivables and Allowances:		
Accounts		
Assessments and Fees (net)	-	-
Miscellaneous	-	-
Inventory	-	-
Due From Other Governmental Agencies		
Sales Taxes	-	-
Parks and Wildlife	-	-
Ad Valorem Taxes	129,734	101,689
Allowance for Uncollectible Taxes	(19,836)	(20,338)
Due from Other Funds	-	-
Prepaid Items	-	-
	<hr/>	<hr/>
TOTAL ASSETS	<u><u>211,513</u></u>	<u><u>179,541</u></u>
LIABILITIES AND FUND BALANCE		
Accounts Payable	77,414	43,608
Other Payables	-	-
Due to Other Funds	62,799	40,181
Deferred Revenues	109,898	81,352
TOTAL LIABILITIES	<hr/> <u><u>250,111</u></u>	<hr/> <u><u>165,141</u></u>
FUND BALANCE		
Reserve for Inventory	-	-
Reserve for Compensated Balances	-	-
Unreserved		
Undesignated	(38,598)	14,400
TOTAL FUND BALANCE	<hr/> <u><u>(38,598)</u></u>	<hr/> <u><u>14,400</u></u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>211,513</u></u>	<u><u>179,541</u></u>

CITY OF TAFT, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE ACTUAL AMOUNT FOR 2011

EXHIBIT H-2
Page 1 of 2

	2012				2011
	<u>BUDGETED AMOUNTS</u>			Variance with Final Budget Variance	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>		<u>Actual</u>
REVENUES					
Taxes					
Ad valorem- Current	510,132	510,132	404,641	(105,491)	370,119
Ad valorem- Delinquent	79,151	79,151	100,896	21,745	32,256
Ad valorem- Penalty & Interest	30,000	30,000	39,353	9,353	26,364
Attest Fees	125	125	468	343	132
City Sales	162,000	162,000	176,855	14,855	156,112
Street Maintenance Sales Tax	38,000	38,000	42,364	4,364	39,043
EDC Monthly Expense Fee	900	900	1,050	150	2,550
Franchise	152,285	152,258	139,805	(12,453)	142,822
Total Taxes	972,593	972,566	905,432	(67,134)	769,398
Licenses and Permits					
Animal Licenses	100	100	394	294	33
Business Licenses	123,000	123,000	120,655	(2,346)	51,214
Building Permits	46,000	46,000	21,994	(24,006)	26,522
Electrical Permits	17,000	17,000	2,448	(14,552)	3,537
Plumbing Permits	7,000	7,000	3,405	(3,595)	3,010
Other Permits	-	-	-	-	-
Mechanical Permits	16,300	16,300	499	(15,801)	2,898
Total Licenses and Permits	209,400	209,400	149,395	(60,005)	87,214
Intergovernmental					
Grants- Other	-	-	-	-	1,000
Total Intergovernmental	-	-	-	-	1,000

**CITY OF TAFT, TEXAS
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE ACTUAL AMOUNT FOR 2011**

**EXHIBIT H-2
Page 2 of 2**

	2012				2011
	BUDGETED AMOUNTS			Variance with Final Budget Variance	
	<u>Original</u>	<u>Final</u>	<u>Actual</u>		<u>Actual</u>
REVENUES					
Charges for Services					
Rural Fire Calls	-	-	-	-	-
Jury Reimbursement Fees	5,385	5,385	4,197	(1,188)	5,662
Weed Control Charges	1,000	1,000	-	(1,000)	-
T Mobile Rent Fee	12,000	12,000	12,000	-	12,000
Rezoning Applications	-	-	-	-	-
Child Safety Fee	5,000	5,000	4,078	(922)	5,018
Library	-	-	-	-	-
Tax Certificates	-	-	-	-	-
Notary Revenue	500	500	548	48	556
Subtotal	<u>23,885</u>	<u>23,885</u>	<u>20,823</u>	<u>(3,062)</u>	<u>23,236</u>
Fines and Penalties	<u>180,000</u>	<u>180,000</u>	<u>104,033</u>	<u>(75,967)</u>	<u>103,313</u>
Other Revenues					
Other/Municipal Court Fines	8,000	8,000	703	(7,297)	179
Interest	2,000	2,000	266	(1,734)	527
EMS Billings/Contributions	149,500	149,500	156,086	6,586	139,320
Attorney Fees	-	-	-	-	-
Community Center Fees	3,300	3,300	6,183	2,883	4,371
Cash Over/Short	-	-	-	-	-
Verizon Fees/Court Fees	3,000	3,000	2,600	(400)	2,200
Sale of Assets	500	500	10,881	10,381	9,351
Miscellaneous	30,150	30,150	44,267	14,117	16,057
Fingerprint Fees	-	-	18	18	12
Copy & Map Sales	1,500	1,500	1,315	(185)	1,478
Insurance Refund	2,000	2,000	5,619	3,619	-
Other/Grants	271,620	271,620	9,482	(262,138)	-
Juvenile Case Manager	-	-	-	-	-
County EMS Subsidy	24,000	24,000	22,001	(1,999)	33,978
LEOSE	2,000	2,000	-	(2,000)	1,179
State Revenues	80,000	80,000	2,896	(77,104)	82,097
Sprint Binder Fee/Rent	13,800	13,800	13,800	-	13,800
Subtotal	<u>591,370</u>	<u>591,370</u>	<u>276,115</u>	<u>(315,255)</u>	<u>304,548</u>
Total Revenues	<u>1,977,248</u>	<u>1,977,221</u>	<u>1,455,797</u>	<u>(521,425)</u>	<u>1,288,710</u>
OTHER SOURCES- Operating Transfers					
Capital - related Debt Issued	-	-	-	-	-
Transfers	596,549	596,549	656,699	60,150	603,595
Total Operating Transfers	<u>596,549</u>	<u>596,549</u>	<u>656,699</u>	<u>60,150</u>	<u>603,595</u>
TOTAL REVENUES AND OTHER SOURCES	<u>2,573,797</u>	<u>2,573,770</u>	<u>2,112,496</u>	<u>(461,275)</u>	<u>1,892,305</u>

**CITY OF TAFT, TEXAS
GENERAL FUND
SCHEDULE OF EXPENDITURES
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE ACTUAL AMOUNT FOR 2011**

	2012			
	BUDGETED AMOUNTS		Personnel	Supplies &
	Original	Final	Costs	Services
Current Expenditures				
General Administration	474,288	474,288	-	554,043
Municipal Court	72,952	72,952	61,168	4,302
Administration	155,157	155,157	138,394	27,330
Legislative	89,844	89,844	2,461	41,252
Tax Collection	11,050	11,050	-	9,596
Total General Administration	803,291	803,291	202,023	636,523
Public Safety				
Police	523,970	523,570	433,159	68,910
Fire	327,500	327,500	-	11,612
Emergency Medical Services	427,981	427,981	362,147	59,125
Animal Control	7,700	7,700	-	64
Code Enforcement	69,860	69,860	40,633	7,843
Total Public Safety	1,357,011	1,356,611	835,939	147,554
Public Works				
Streets Department	217,229	217,229	96,601	33,688
Total Public Works	217,229	217,229	96,601	33,688
Culture and Recreation				
Library	52,837	52,837	48,984	3,036
Parks/Community Center	116,545	116,545	78,404	7,575
Museum	4,000	4,000	-	-
Community Centers	16,757	16,757	10,725	1,694
Total Parks and Recreation	190,139	190,139	138,113	12,305
Total Current Expenditures	2,567,670	2,567,270	1,272,676	830,070

EXHIBIT H-3

		2012		2011
			Variance with Final Budget Variance	Actual
Debt Service	Capital Outlay	Total Actual		
		554,043	(79,755)	21,916
-	-	65,470	7,482	85,483
-	-	165,724	(10,567)	194,002
-	-	43,713	46,131	130,577
-	-	9,596	1,454	4,398
-	-	838,546	44,500	436,376
-	6,232	508,301	15,269	537,326
-	22,906	34,519	292,981	20,735
-	9,624	430,896	(2,915)	421,143
-	-	64	7,636	27,345
-	20,838	69,314	546	25,120
-	59,599	1,043,093	313,518	1,031,670
-	3,148	133,437	83,792	168,772
-	3,148	133,437	83,792	168,772
-	-	52,020	817	61,699
-	-	85,979	30,566	131,256
-	-	-	4,000	5,727
-	-	12,419	4,338	19,246
-	-	150,418	39,721	217,928
-	62,748	2,165,493	481,531	1,854,746

City of Taft, Texas

NON-MAJOR GOVERNMENTAL FUNDS

**CITY OF TAFT, TEXAS
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR 2011**

	Taft Fire Equipment Improv. Fund	Taft Emergency Medical Service Fund	Series 2010 Debt Serv. Fund	Juvenile Case Manager Fund	Taft Court Technology Fund	Taft Park Fund
ASSETS						
Cash and Cash Equivalents	\$ 0	0	5,217	0	0	0
Receivables	0	0	0	19,477	15,217	0
Due from Other Governments	0	0	0	0	0	0
Due from Other Funds	4	0	0	0	74	0
TOTAL ASSETS	\$ 4	0	5,217	19,477	15,291	0
LIABILITIES AND FUND BALANCE						
Accounts Payable	\$ 0	0	0	0	0	0
Due to Others	0	0	0	0	0	0
Due to Other Funds	0	0	0	0	0	0
TOTAL LIABILITIES	\$ 0	0	0	0	0	0
FUND BALANCE						
Committed for Special Revenue	\$ 0	0	0	0	0	0
Assigned for Special Revenue	4	0	0	19,477	15,291	0
Restricted for Debt Service	0	0	5,217	0	0	0
TOTAL FUND BALANCE	\$ 4	0	5,217	19,477	15,291	0
TOTAL LIABILITIES & FUND BALANCE	\$ 4	0	5,217	19,477	15,291	0

EXHIBIT H-4

Pride of Taft Fund	Taft Building & Security Fund	Criminal Justice Planning	Grant #725174	Forfeitures Fund	ORCA Grant #727461	Taft Emergency Services Fund	Solid Waste Grant Fund	Series 2004 Debt Serv. Fund
\$ 2,483	0	(111,354)	0	1,546	(39,883)	15,303	(2,751)	3,148
0	7,951	0	0	0	0	0	0	0
0	0	24,647	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
<u>\$ 2,483</u>	<u>7,951</u>	<u>(86,707)</u>	<u>0</u>	<u>1,546</u>	<u>(39,883)</u>	<u>15,303</u>	<u>(2,751)</u>	<u>3,148</u>
\$ 0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
\$ 0	0	0	0	0	0	0	0	0
2,483	7,951	(86,707)	0	1,546	(39,883)	15,303	(2,751)	3,148
0	0	0	0	0	0	0	0	0
<u>\$ 2,483</u>	<u>7,951</u>	<u>(86,707)</u>	<u>0</u>	<u>1,546</u>	<u>(39,883)</u>	<u>15,303</u>	<u>(2,751)</u>	<u>3,148</u>
<u>\$ 2,483</u>	<u>7,951</u>	<u>(86,707)</u>	<u>0</u>	<u>1,546</u>	<u>(39,883)</u>	<u>15,303</u>	<u>(2,751)</u>	<u>3,148</u>

**CITY OF TAFT, TEXAS
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR 2011**

EXHIBIT H-4

	Police Department	Firemen's Pension Fund	Firemen's Operating Fund	Total Nonmajor Governmental Funds <u>2012</u>
ASSETS				
Cash and Cash Equivalents	38	162,554	48,199	84,500
Receivables	0	0	0	42,645
Due from Other Governments	0	0	0	24,647
Due from Other Funds	0	0	61,394	61,472
TOTAL ASSETS	38	162,554	109,593	213,264
LIABILITIES AND FUND BALANCE				
Accounts Payable	0	0	0	0
Due to Others	0	0	0	0
Due to Other Funds	0	0	0	0
TOTAL LIABILITIES	0	0	0	0
FUND BALANCE				
Committed for Special Revenue	0	0	0	0
Assigned for Special Revenue	38	162,554	109,593	208,047
Restricted for Debt Service	0	0	0	5,217
TOTAL FUND BALANCE	38	162,554	109,593	213,264
TOTAL LIABILITIES & FUND BALANCE	38	162,554	109,593	213,264

City of Taft, Texas

CITY OF TAFT, TEXAS
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR 2011

	Taft Fire Equipment Improv. Fund	Taft Emergency Medical Service Fund	Series 2010 Debt Serv. Fund	Juvenile Case Manager Fund	Taft Court Technology Fund	Taft Park Fund
REVENUE						
Taxes	\$ 0	0	0	0	0	0
Intergovernmental	0	0	0	5,276	0	0
Interest	0	0	56	0	0	0
Other	0	0	0	0	4,272	0
TOTAL REVENUES	\$ 0	0	56	5,276	4,272	0
EXPENDITURES						
Current						
Personnel Costs	\$ 0	0	0	0	0	0
Supplies	0	0	0	0	0	0
Other Services and Charges	0	0	0	0	0	0
Capital Outlay	0	0	123,748	0	0	0
TOTAL EXPENDITURES	\$ 0	0	123,748	0	0	0
EXCESS (DEFICIENCY) OF REVENUES						
OVER EXPENDITURES	\$ 0	0	(123,692)	5,276	4,272	0
OTHER FINANCE SOURCES (USES)						
OTHER FINANCING - Bonds	\$ 0	0	0	0	0	0
Transfer In from Other Funds	0	0	0	0	0	0
Transfer (Out) to Other Funds	0	0	0	0	0	0
TOTAL OTHER FINANCE						
SOURCES(USES)	\$ 0	0	0	0	0	0
EXCESS (DEFICIENCY) OF REV.						
AND OTHER SOURCES OVER						
EXPENDITURES & OTHER USES	\$ 0	0	(123,692)	5,276	4,272	0
FUND BALANCE, beginning of year	4	0	128,909	14,201	11,019	0
Prior Period Adjustment	0	0	0	0	0	0
FUND BALANCE, end of year	\$ 4	0	5,217	19,477	15,291	0

EXHIBIT H-5

Pride of Taft Fund	Taft Building & Security Fund	Criminal Justice Planning	Grant #725174	Forfeitures Fund	ORCA Grant #727461	Taft Emergency Services Fund	Solid Waste Grant Fund	Series 2004 Debt Serv. Fund
\$ 0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	63,330	21,569	0
7	0	0	0	0	0	11	0	3
7,151	3,204	0	0	3,752	0	0	0	0
\$ 7,158	3,204	0	0	3,752	0	63,342	21,569	3
77,280								
\$ 0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
7,238	442	17,696	0	1,000	0	0	0	0
0	0	0	0	0	0	0	0	0
\$ 7,238	442	17,696	0	1,000	0	0	0	0
\$ (79)	2,762	(17,696)	0	2,752	0	63,342	21,569	3
0	0	0	0	0	0	0	0	0
\$ 0	0	0	0	2,500	0	0	0	0
0	0	0	0	(3,750)	0	(51,900)	0	0
\$ 0	0	0	0	(1,250)	0	(51,900)	0	0
\$ (79)	2,762	(17,696)	0	1,502	0	11,442	21,569	3
2,562	5,189	(69,012)	0	44	(39,883)	3,861	(24,320)	3,145
0	0	0	0	0	0	0	0	0
\$ 2,483	7,951	(86,707)	0	1,546	(39,883)	15,303	(2,751)	3,148

CITY OF TAFT, TEXAS
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED SEPTEMBER 30, 2011
WITH COMPARATIVE TOTALS FOR 2010

EXHIBIT H-5

	Police Department	Firemen's Pension Fund	Firemen's Operating Fund	Total Nonmajor Governmental Funds 2012
REVENUES				
Taxes	0	0	0	0
Intergovernmental	0	6,000	43,366	423,383
Interest	0	216	21	315
Other	0	0	0	63,092
TOTAL REVENUES	<u>0</u>	<u>6,216</u>	<u>43,387</u>	<u>486,790</u>
EXPENDITURES				
Current				
Personnel Costs	0	3,960	0	3,960
Supplies	0	0	0	0
Other Services and Charges	0	0	8,777	363,708
Capital Outlay	0	0	0	123,748
TOTAL EXPENDITURES	<u>0</u>	<u>3,960</u>	<u>8,777</u>	<u>491,416</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES	0	2,256	34,610	(4,626)
OTHER FINANCE SOURCES (USES)				
OTHER FINANCING - Bonds	0	0	0	0
Transfer In from Other Funds	0	0	0	2,500
Transfer (Out) to Other Funds	0	0	0	(55,650)
TOTAL OTHER FINANCE				
SOURCES(USES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(53,150)</u>
EXCESS (DEFICIENCY) OF REV.				
AND OTHER SOURCES OVER				
EXPENDITURES & OTHER USES	0	2,256	34,610	(57,776)
FUND BALANCE, beginning of year	38	160,298	74,983	271,039
Prior Period Adjustment	0	0	0	0
FUND BALANCE, end of year	<u>38</u>	<u>162,554</u>	<u>109,593</u>	<u>213,264</u>

PROPRIETARY FUNDS

City of Taft, Texas

ENTERPRISE FUND

Enterprise Funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the governing body is that costs (including depreciation) or providing goods or services to the General public on a continuing basis be financed or recovered primarily through the user charges. The Enterprise Funds use the accrual basis of accounting. The City maintains the following Enterprise Fund:

Utility Fund- established to account for the operations of the City's water and sewer system.

**CITY OF TAFT, TEXAS
COMPARATIVE STATEMENTS OF NET ASSETS
UTILITY FUND
SEPTEMBER 30, 2012 AND 2011**

EXHIBIT I-1
Page 1 of 2

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	(64,331)	20,428
Receivables and Allowances		
Accounts		
Water and Wastewater Billings	251,913	236,228
Assessments	0	0
Other	0	0
Allowance for Uncollectible Accounts	(14,543)	(14,427)
Due from Other Funds	0	0
Bond Issue Cost (Net)	0	0
Prepaid Items	0	0
Inventory	15,071	25,635
	<u>188,109</u>	<u>267,864</u>
Total Current Assets		
	<u>188,109</u>	<u>267,864</u>
Non-Current Assets:		
Restricted Assets:		
Cash and Cash Equivalents		
Meter Deposit Funds	0	0
Revenue Bond Reserve	0	0
Sinking Fund- Bonds	0	0
	<u>0</u>	<u>0</u>
Total Restricted Assets	<u>0</u>	<u>0</u>
Capital Assets:		
Land	0	0
Construction in Progress	0	0
Buildings	32,668	32,668
Water System	1,564,062	1,564,062
Sewer System	2,685,810	2,685,811
Vehicles	0	0
Furniture and Equipment	493,995	493,995
	<u>4,776,536</u>	<u>4,776,536</u>
Total Capital Assets	<u>4,776,536</u>	<u>4,776,536</u>
Less Accumulated Depreciation	(3,878,678)	(3,800,856)
Net Capital Assets	<u>897,858</u>	<u>975,680</u>
TOTAL ASSETS	<u><u>1,085,967</u></u>	<u><u>1,243,544</u></u>

**CITY OF TAFT, TEXAS
COMPARATIVE STATEMENTS OF NET ASSETS
UTILITY FUND
SEPTEMBER 30, 2012 AND 2011**

EXHIBIT I-1
Page 2 of 2

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	85,409	62,279
Accrued Liabilities	99,450	148,229
Compensated Absences	14,206	28,671
Due to Other Funds	0	0
Capital Leases Payable	0	0
Current Portion of Revenue Bonds Payable	0	0
Customer Meter Deposits	<u>118,184</u>	<u>113,089</u>
Total Current Liabilities	<u>317,248</u>	<u>352,268</u>
Long-Term Liabilities		
Capital Leases Payable	0	0
Revenue Bonds Payable	<u>0</u>	<u>0</u>
Total Long-Term Liabilities	<u>0</u>	<u>0</u>
Total Liabilities	<u>317,248</u>	<u>352,268</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	897,858	975,680
Restricted for:		
Revenue Bond Retirement	0	0
Unrestricted	<u>(129,139)</u>	<u>(84,404)</u>
Net Assets	<u><u>768,719</u></u>	<u><u>891,276</u></u>

**CITY OF TAFT, TEXAS
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
UTILITY FUND
YEAR ENDED SEPTEMBER 30, 2012 AND 2011**

EXHIBIT I-2

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Charges for Services		
Water Sales	875,336	849,232
Sewer Sales	494,447	475,689
Sanitation Fees	465,269	468,578
Other Fees and Charges	<u>52,834</u>	<u>62,002</u>
Total Operating Revenues	<u>1,887,887</u>	<u>1,855,501</u>
OPERATING EXPENSES		
Personnel Costs	416,876	401,849
Contracted Services	312,728	401,107
Supplies	41,116	41,143
Maintenance	18,700	8,046
Other Operating Expenses	56,120	176,237
Water Purchased	483,533	472,540
Depreciation	77,822	122,099
Amortization	-	-
Total Operating Expenses	<u>1,406,895</u>	<u>1,623,021</u>
Net Operating Income	<u>480,992</u>	<u>232,480</u>
NON-OPERATING REVENUES (EXPENSES)		
Refunding Bonds Issued	-	-
Payments to Escrow Agents	-	-
Grant Income	-	-
Interest Income	-	-
Interest and Fiscal Charges	<u>-</u>	<u>-</u>
Net Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>
Income Before Transfers	<u>480,992</u>	<u>232,480</u>
Transfers in	-	-
Transfers out	<u>(603,549)</u>	<u>(467,933)</u>
Change in Net Assets	<u>(122,557)</u>	<u>(235,453)</u>
Prior Period Adjustment	-	(77,984)
NET ASSETS BEGINNING OF YEAR	<u>891,276</u>	<u>1,204,713</u>
NET ASSETS END OF YEAR	<u><u>768,719</u></u>	<u><u>891,276</u></u>

CITY OF TAFT, TEXAS

EXHIBIT I-3

UTILITY FUND

SCHEDULE OF OPERATING REVENUES AND EXPENSES- BY FUND

YEAR ENDED SEPTEMBER 30, 2012

	Utility-Water Fund 20	Utility-Wastewater Fund 30	Utility Sanitation Fund 40	Total
OPERATING REVENUES				
Charges for Services				
Water Sales	869,736	-	-	869,736
Sewer Sales	-	494,447	-	494,447
Sanitation Fees	-	-	465,269	465,269
Water Taps	5,600	-	-	5,600
Sewer Taps	-	-	-	0
Total Charges for Services	875,336	494,447	465,269	1,835,053
Other Fees and Charges				
Delinquent Account Penalties	38,811	-	-	38,811
Reimbursement	-	-	-	0
Other	14,023	-	-	14,023
Total Other Fees and Charges	52,834	-	-	52,834
Total Operating Revenues	928,171	494,447	465,269	1,887,887
OPERATING EXPENSES				
Personnel Costs	177,108	162,871	76,897	416,876
Contracted Services	6,635	17,185	288,908	312,728
Supplies	28,786	5,871	6,458	41,116
Maintenance	10,733	7,632	335	18,700
Other Operating Expenses	21,982	22,499	11,639	56,120
SUBTOTAL	245,244	216,058	384,238	845,540
Water Purchased	483,533	-	-	483,533
Depreciation	21,679	56,143	-	77,822
Amortization	-	-	-	0
Total Operating Expenses	750,456	272,201	384,238	1,406,895
NET OPERATING INCOME	177,715	222,246	81,031	480,992
NON-OPERATING REVENUES (EXPENSES)				
Refunding Bonds Issued	-	-	-	-
Payments to Escrow Agents	-	-	-	-
Grant Income	-	-	-	-
Interest Income	-	-	-	-
Interest and Fiscal Charges	-	-	-	-
Net Non-Operating Revenues (Expenses)	-	-	-	-
Income Before Transfers	177,715	222,246	81,031	480,992
Transfers in	-	-	-	-
Transfers (out)	(244,897)	(277,057)	(81,595)	(603,549)
Change in Net Assets	(67,182)	(54,811)	(564)	(122,557)
Prior Period Adjustment	-	-	-	-
NET ASSETS BEGINNING OF YEAR	232,157	732,236	(73,117)	891,276
NET ASSETS END OF YEAR	164,975	677,425	(73,681)	768,719

**CITY OF TAFT, TEXAS
COMPARATIVE STATEMENTS OF CASH FLOWS
UTILITY FUND
YEAR ENDED SEPTEMBER 30, 2012 AND 2011**

EXHIBIT I-4

	2012	2011
Cash flow from operating activities:		
Cash received from customers	1,882,883	1,879,964
Cash payments to suppliers for goods and services	(932,752)	(977,069)
Cash payments to employees for services	(431,341)	(401,525)
Net cash provided by operating activities	518,790	501,370
Cash flows from noncapital financing activities:		
Net transfers to funds	(603,549)	(467,933)
Net Cash flows from non-capital financing activities	(603,549)	(467,933)
Cash Flows from Capital and Related Financing Activities:		
Net Refunds bonds/costs	0	0
Grant Proceeds	0	0
Principal Payment on bonds	0	0
Interest and Fiscal Charges Paid	0	0
Purchase of Fixed Assets/Bond Costs	0	0
Other adjustments	0	(77,985)
Net Cash Used for Capital and Related Financing Activities	0	(77,985)
Cash Flows from Investing Activities- Interest Income	0	0
Net Increase (Decrease) in Cash and Cash Equivalents	(84,758)	(44,548)
Cash and Cash Equivalents at Beginning of Year	20,428	64,976
CASH AND CASH EQUIVALENTS AT END OF YEAR	(64,330)	20,428
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating Income	480,992	232,480
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	77,822	122,099
Amortization	0	0
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable (Net)	(15,568)	(14,470)
(Increase) Decrease in Due from Other Funds	0	38,934
(Increase) Decrease in Due from Other Governments	0	0
(Increase) Decrease in Prepaid Items	0	0
(Increase) Decrease in Inventory	10,564	0
Increase (Decrease) in Accounts Payable	23,130	49,665
Increase (Decrease) in Accrued Liabilities	(48,779)	65,499
Increase (Decrease) in Due to Other Funds	0	0
Increase (Decrease) in Capital Leases Payable	0	0
Increase (Decrease) in Compensated Absences	(14,465)	324
Increase (Decrease) in Customer Deposits	5,095	6,839
Net Cash Provided by Operating Activities	518,790	501,370

The accompanying notes to financial statements are an integral part of this statement.

INTERNAL CONTROL AND COMPLIANCE SECTION

City of Taft, Texas



**ERNEST R. GARZA
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Independent Auditor's Report

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

To the Honorable Mayor,
Members of City Council
City of Taft, Texas

We have audited the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Taft, Texas as of and for the year ended September 30, 2012. These collectively comprise the City of Taft, Texas's basic financial statements. We have issued our report on them dated June 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the City of Taft, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Taft, Texas internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Taft, Texas, internal control over financial reporting. Accordingly, we do not express an opinion on the effective of the City of Taft, Texas, internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement in the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. See Findings No. 2012-01 and 2012-03.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. See Finding No. 2012-01 thru 2013-02.

Compliance and Other Matters

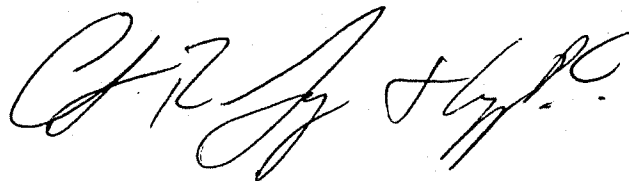
As part of obtaining reasonable assurance about whether the City of Taft, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings No. 2012-01 thru 2012-03.

We noted certain matters that we reported to the administration of the City of Taft, Texas, in a letter dated June 15, 2013.

City of Taft, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Taft, Texas' response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, and the various federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Ernest R. Garza and Company, P.C.
Certified Public Accountants

A handwritten signature in black ink, appearing to read "Ernest R. Garza", is written over a faint, larger signature that appears to read "John J. Hyatt".

June 15, 2013

CITY OF TAFT, TEXAS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Finding No. 2011-01.

Criteria: The City of Taft should maintain a general fund balance of approximately three months of annual expenditures. This should also be a goal for the utility fund as well.

Condition: The City of Taft over-expended funds and resulted in a deficit general fund balance and in the utility fund unrestricted net assets.

Cause: The overspending of funds and lack of monitoring the budget process resulted in a deficit general fund balance. Excessive transfers resulted in the deficit in the utility fund's unrestricted net assets.

Effect: The City of Taft deficits should be avoided in order to ensure proper services are maintained. The City should have approximately a three month of annual expenditures in the general fund as well as three months of annual expenses in the utility fund in the unrestricted net assets.

Recommendation: For accountability and internal control purposes, the City of Taft should establish strong budget and purchasing controls to re-establish its general fund and well as other city funds to three months of annual operational expenditures/expenses.

Status: Finding still valid.

Finding No. 2011-02.

Criteria: The City of Taft should ensure budget amendments do not result in a negative fund balance.

Condition: The City of Taft made budget amendments that resulted in a negative projected fund balance in the general fund.

Cause: Budget amendments that exceed the available fund balance are not allowed.

Effect: Budget amendments that exceed the available fund balance result in a larger deficit and can affect the operations of the City.

Recommendation: For accountability and internal control purposes, the City of Taft should establish strong budget (and amendments) and purchasing controls to re-build its general fund and well as other city funds to three months of annual operational expenditures/expenses.

Status: Finding still valid.

CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. Summary of the Auditor's Results:

The report issued on the financial statements of City of Taft, Texas, was an unqualified opinion.

The audit did disclose compliance issues which are material to the basic financial statements, a qualified opinion was issued on the compliance and internal controls.

II. Findings relating to the Financial Statements which are required to be reported in accordance with Generally Accepted Government Auditing Standards.

Finding No. 2012-01.

Criteria: The City of Taft should maintain a general fund balance of approximately three months of annual expenditures. This should also be a goal for the utility fund as well.

Condition: The City of Taft over-expended funds and resulted in a deficit general fund balance and in the utility fund unrestricted net assets.

Cause: The overspending of funds and lack of monitoring the budget process resulted in a deficit general fund balance. Excessive transfers resulted in the deficit in the utility fund's unrestricted net assets.

Effect: The City of Taft deficits should be avoided in order to ensure proper services are maintained. The City should have approximately a three month of annual expenditures in the general fund as well as three months of annual expenses in the utility fund in the unrestricted net assets.

Recommendation: For accountability and internal control purposes, the City of Taft should establish strong budget and purchasing controls to re-establish its general fund and well as other city funds to three months of annual operational expenditures/expenses.

Finding No. 2012-02.

Criteria: The City of Taft should ensure all funds are budgeted and budget amendments are made as necessary.

Condition: The City of Taft did not budget for all funds as well as make necessary budget amendments.

Cause: A lack of proper budgets make expenditures unallowable.

Effect: A lack of proper budgets make expenditures unallowable and resulted in a deficit in the General Fund.

Recommendation: For accountability and internal control purposes, the City of Taft should proper budgets and establish strong budget controls (amendments) and purchasing controls.

CITY OF TAFT, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Finding No. 2012-03.

Criteria: The City of Taft is required to record all transactions to its general ledgers.

Condition: The City of Taft did not record the Series 2010 bond funds to its ledgers nor did the City reflect the construction in progress to its fixed assets ledgers.

Cause: The City of Taft, Texas Series 2010 bond funds were not reflected in the general ledgers and did not also reconcile the construction in progress to its fixed asset ledgers.

Effect: The City of Taft, Texas had material misstatements due to the Series 2010 Bond Series not being reflected to its general ledgers.

Recommendation: For accountability and internal control purposes, the City of Taft should ensure all transactions are reflected on its ledgers including the fixed asset additions from bond funds.

CITY OF TAFT, TEXAS
CORRECTION ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Response to Findings No. 2012-01: Management has acquired the purchasing module from the software vendor which will not allow purchases without a purchase order. Management will also monitor the expenditures monthly to ensure the City is not going over budget. If line items are maintained within budget, the general fund should be replenished over time as well as the utility fund.

Response to Findings No. 2012-02: Management will enhance its budget controls for all funds.

Response to Findings No. 2012-03: Management will enhance its financial statements to include all funds - escrowed funds included.